

Message Text

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ACTION EB-07

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TAGS: BEXP, BR

SUBJECT: USG/INDUSTRY TASK FORCE - BRAZILIAN STEEL EXPANSION

REF: A-STATE 283418

B-BRASILIA 9576

C-JASPER/RUSER TELCON JANUARY 6

1. SUMMAR- SUCCESS OF STEEL TAKS FORCE VISIT WILL DEPEND CON-
SIDERABLY ON SUBSTANTITIVE PREPARATIONS BY BOTH SIDES.

EARLY TRANS-

MISSION TO SIDERBRAS OF DETAILED AGENDA OF SUBJECTS THAT US
INDUSTRY WISHES TO DISCKSF IS MOST IMPORTANT. FINANCING REMAINS
CENTRAL CONCERN OF BRAZILIANS REGARDING US PARTICIPATION. END
SUMMARY.

2. ECON COUNSELOR MET WITH SIDERBRAS SUPERINTENDENT WILKIE
BARBOSA ON JANUARY 7 TO DISCUSS PREPARATIONS FOR TASK FORCE VISIT
AND TO REVIEW REVISED SCHEDULE CONTAINED REF A. BARBOSA CONFIRMED
AGREEMENT WITH SCHEDULE, TOOK OCCASIOMN TO EXPRESS SIDERBRAS' AND
GOB SATISFACTION THAT US STEEL INDUSTRY MISSION WAS COMING TO
BRAZIL, AND REPEATED VIEW PREVIOUSLY EXPRESSED TO EMBASSY THAT
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BRAZILIANS EXPECTED US SUPPLIERS TO OBTAIN A MAJOR PORTIOMN OF

CONTRACTS FOR STEEL EXPANSION PROGRAM. HE SAID THERE WAS NO DOUBT ABOUT QUALITY AND SPECIFICATIONS OF US EQUIPMENT AND REPEATEDLY EMPHASIZED THAT FINANCING WAS ONLY ASPECT THAT COULD WEAKEN US COMPETITIVE POSITION. BARBOSA INDICATED THAT SIDERBRAS HAD BEEN GIVEN RIGID INSTRUCTIONS FROM HIGHER LEVELS OF GOB TO OBTAIN FINANCING TERMS OF 12 YEARS AMORTIZATION PLUS 2-3 YEAR GRACE PERIOD WITH EXTERNAL CREDITS TO COVER 90 PERCENT OF OVERSEAS PROCUREMENT. HE SAID AUSTRIANS HAD ALREADY GIVEN A COMMITMENT FOR THOSE TERMS ON CREDITS OF \$100 MILLION WHICH, IN ABSENCE OF COMPETITIVE TERMS FROM OTHER COUNTRIES, WOULD MOST LIKELY GIVE THEM THE BULK OF PROCUREMENT FOR PLATE AND H-D PROCESS EQUIPMENT. HE SAID SOVIETS WERE SHOWING STRONG INTEREST IN PARTICIPATING IN STEEL EXPANSION PROGRAM AND HAD OFFERED TO OPEN A LARGE LINE OF CREDIT AT FAVORABLE TERMS. HE SAID FRENCH WERE ALSO ACTIVE IN CONTACTS WITH GOB BUT HAD NOT YET GIVEN ANY COMMITMENT ON FINANCING.

3. EMBASSY OFFICERS RAISED SUBSTANTIVE AREAS OF AGENDA FOR US BRAZILIAN TALKS ALONG LINES AGREED IN JASPER-RUSER TELECON; IT QUICKLY BECAME CLEAR THAT BARBOSA HAD NOT YET THOUGHT THROUGH SUBSTANTIVE FLOW OF TASK FORCE DISCUSSIONS AND WAS PRINCIPALLY CONCERNED TO ENSURE THAT THESE WOULD BE FULL DISCUSSIONS OF FINANCING. BARBOSA NOTED THAT VERY FULL DESCRIPTION OF THIRD-PHASE STEEL EXPANSION PROGRAM, INCLUDING VARIOUS PROJECT PACKAGES, HAD BEEN PRESENTED DURING BRAZILIAN MISSION'S VISIT TO US, AND THAT US SUPPLIERS HAD DETAILED LISTS OF SPECIFICATIONS OF THE EQUIPMENT AND INSTALLATIONS. HOWEVER, WHILE NOT PARTICULARLY ATTRACTED BY THE PROSPECT, AFTER SOME DISCUSSION, HE AGREED THAT AN UP-DATED PRESENTATION OF THE PROGRAM AND THE PACKAGES MIGHT BE USEFUL FROM THE BRAZILIAN SIDE FOR AN OPENER. HE ALSO WAS AGREEABLE TO GO THROUGH THE BIDDING AND EVALUATION PROCESS STEP-BY-STEP IN TERMS OF A FLOW CHART. HE INDICATED THAT ON SUCH QUESTIONS AS BIDDING PROCEDURES AND TIMETABLES, GOB MIGHT SHOW SOME FLEXIBILITY IN LIGHT OF US INDUSTRY CONCERNS.

4. WITH RESPECT TO SPECIFIC AREAS WHERE BRAZILIAN SIDE FELT US SUPPLIERS WOULD BE PARTICULARLY COMPETITIVE, BARBOSA WOULD ONLY GIVE GENERAL RESPONSE, COMMENTING THAT SOME OTHER COUNTRIES ALSO HAD ADVANTAGES FOR BLAST FURNACES, LIMITED OFFICIAL USE

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COKING OVERS, AND ROUGHING EQUIPMENT BUT THAT US WAS IN BEST POSITION FOR HOT AND COLD-ROLLED MILLS AND FINISHING LINE EQUIPMENT, WHICH CONSTITUTED MAJOR PORTION OF FOREIGN PROCUREMENT. HE THEN REPEATED POINT ON FINANCING, STATING THAT ALL TRADITIONAL SUPPLIERS - US, UK, FRANCE, JAPAN - COULD EXPECT IMPORTANT CONTRACTS, BUT IF DESIRED TERMS WERE NOT MET, GOB WOULD BE OBLIGED TO PURCHASE AS MUCH EQUIPMENT AS POSSIBLE FROM OTHER SOURCES EVEN IF THIS MEANT MODIFI-

CATIONS IN SOME TECHNICAL ASPECTS OF EXPANSION PROGRAM.
AS LACK OF STRUCTURE TO THE TALKS AND BELIEVES AN EFFORT
TO WORK UP IN MORE SPECIFIC TERMS A SUBSTANTIVE AGENDA OF
SUBJECTS FOR DISCUSSION AS REQUESTED REF B, WILL BE AN
IMPORTANT CONTRIBUTION TOWARD A SUCCESSFUL TASK FORCE
VISIT.

6. ACCOMMODATIONS FOR TASK FORCE AND DOC ADVANCE OFFICER ARE
CONFIRMED AT HOTEL NACIONAL BRASILIA. SIDERBRAS REQUESTS
UP-DATED LIST OF TASK FORCE PARTICIPANTS FOR JANUARY 24
AIRLINE RESERVATIONS. CONTROL OFFICER FOR VISIT IS ECON
COUNSELOR CLAUS W. RUSER.
JOHNSON

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